‘Growing Up Fast’

New report into Australia’s rapidly evolving short term rental market

- Exclusive 2020 market data from Transparent Intelligence
- Expert analysis, market sizing and trends
- State by state STR listing and performance breakdown
- Insights into industry dynamics and major players
- Property management overview and landscape
- National market intelligence for STR professionals
- Ideal high-level backgrounder for potential STR investors
Introduction – the storm has passed but uncertainty lingers on

Australia’s tourism industry is in now in the early stages of long slow recovery after a devastating 2020 for many operators, particularly those who made (past tense) a living from international travel, which at the time of writing does not exist in any meaningful way into or out of Australia.

Hardest hit have been travel agents, wholesalers and other tourism service providers, thousands of whom will undoubtedly exit the industry when the Federal Government’s JobKeeper income support program ends on March 28, 2021.

It is part of a major industry restructure already under way due to the now obvious reality that travel will never return to “normal”.

Respected analysts and industry groups such as IATA suggesting global travel numbers will not rebound until at least 2024.

In this context, and considering the beating traditional accommodation operators such as hotels and resorts have taken, much of the short-term rental (STR) industry in Australia (with the obvious exception of lockdown-affected Victoria) has weathered the COVID well, considering.

There were a few hard months through autumn and winter in many parts of the country, but domestic tourism bounced strongly through the back half of 2020 whenever and wherever border closures were not an issue, while January was good to pumping right through to the Australia Day weekend across the nation.

So, what will 2021 bring? No-one knows – uncertainty (and vaccine) remain the catchphrases. One thing is for sure, no-one they will be taking anything for granted.
Key trends, observations from 2020

- **Houses over apartments.** There was a clear shift in preference by consumers to whole houses to apartments due to COVID for reasons of privacy, security, space and cleanliness. This is likely to be a long-term trend and is also evident in the long-term rental market.

- **Regional renaissance.** Key Australian regional destinations within easy reach of a major city – a two or three-hour drive – have been doing very well through the back half of 2020. Some are setting all time performance records, especially on weekends.

- **Inner city blues.** City markets are hurting through a combination of factors including oversupply of apartments, negligible levels of business travel (though this will slowly change) and challenges in attracting domestic tourists compounding the reality of zero international tourism.

- **Increased market fluidity.** Rental markets are no longer pick and stick. It was obvious through 2020 that owners keep their eye on both long and short-term markets and were willing to switch when circumstances dictated. Property managers who work both sides of the street will have an advantage going forward.

- **STR over hotels.** Short-term rentals, especially those with two or more bedrooms, outperformed hotels across 27 global markets during peak COVID – a trend that eased as the year went on but significant in that it shows a high level of trust in the sector.

- **One trick ponies.** Airbnb continues its domination of Australia’s online STR marketplace with 50% of stock exclusively listed on the platform. Just 25% of Australia’s whole-home properties have a diversified distribution strategy.
Market size: 206,000 online listings at end of 2020 falling -8% yoy

How big is Australia’s short term rental market and what is it worth to the Australian economy? Numbers vary wildly.

A NSW Government report claimed STR accounts for more than 25% of total visitor nights and that there were 216,000 STR premises in NSW/ACT alone, suggesting national supply of more than 436,000 properties.

But latest data from Transparent Intelligence suggests many of these are not actively marketed. Transparent’s data shows that:

- 2020 listing numbers on the major online booking platforms Airbnb, VRBO (Expedia/Stayz) and Booking.com peaked at 223,676 in January.
- Listings dropped to 205,581 by December, 2020, a decline of -8% year on year.
- Online listing numbers hit rock bottom in August at 195,429, a fall of -13%.
Listing declines lag lockdowns – seasonal troughs likely in play

Surprisingly, property owners and managers took a while to pull their properties from the online platforms and explore alternatives such as the long-term rental market after the national lockdowns in April and May.

Peak lockdown was in April and May, yet stock levels fell to their lowest point in June, July and August, followed by a big bump in September, corresponding with spring school holidays in many states.

Listing numbers fell again through October and November before bouncing as the peak Christmas holiday approached in December, though still well down on where they were at the end of 2019 and the beginning of 2020.

East coast states dominate short term market share

NSW, Victoria and Queensland are by far Australia’s largest short term rental markets – accounting for 82% of all listings on the major short term rental platforms.

Western Australia and South Australia are second tier markets, a long way back in terms of numbers. The ACT and Northern Territory markets are negligible.
Performance data – rates steady, RevPAR dives

Average daily rate remained remarkably stable throughout the year in most destinations despite COVID.

But that is a largely meaningless statistic because demand, measured in occupancy, was terrible for large parts of 2020 in many parts of Australia.

The true impact of COVID can be seen through performance benchmark of Revenue per Available Room (RevPAR), which slumped dramatically through the middle of 2020.

While short-term rental markets did recover strongly in the last three months of the year in certain key locations, for many property owners and managers, 2020 was a financial and emotional drain.
Mate against mate – state against state

There were enormous swings in market performance across Australia, due in large part to the varying incidence of COVID and wild differences in the way each state government met the challenge (the Federal Govt only controls national borders).

Victoria and NSW – Australia’s largest states – bore the brunt of the pandemic and as a result their residents were frequently denied entry to other states enforcing rigid border restrictions.

This meant almost 50% of Australia’s population was unable to travel anywhere but their own state for large parts of the year, which had a huge impact on interstate travel.

Airlines such as Qantas ran dramatically reduced domestic schedules and recovery in airline capacity is much slower than originally forecast. Qantas CEO Alan Joyce said the airline would run at 60% pre-pandemic capacity in the March 2020 quarter, three months behind schedule.
Queensland – remote areas pay price for isolation

The further STR operators were from Brisbane and southeast QLD, the state's major population hub, the harder COVID hit.

Especially those based in far north tourism destinations such as Cairns, which have a heavy dependence on international tourism.

“The loss of two-thirds of our domestic market and all international markets is costing the Cairns and Great Barrier Reef region more than $8 million a day,” said Mark Olsen, CEO of Tourism Tropical North Queensland in early February 2021.

Conversely the Gold Coast and Sunshine Coast south and north of Brisbane did quite well.

Some believe Queensland's border policies were harsh and politically parochial, especially with neighbouring state and key market NSW, unnecessarily hurting business.

Overall, the number of short-term rentals was down -5% year on year and occupancy slowly crept back up through the second half of 2020, reaching 59% by December, when RevPAR hit $161, higher than it was in January and second to only NSW in national terms.
Western Australia – out of sight, out of mind

Western Australia became a virtual country throughout COVID, closing its borders harder and longer than any other Australian state.

But despite that, WA did better than expected with its resource-based economy doing relatively well due to high commodity prices.

The border closures also meant that many fly-in fly-out (FIFO) workers from interstate chose to stay in WA, boosting demand.

Perth was particularly strong with some local operators reporting occupancy rates of more than 80% after the initial post-COVID collapse.

Overall, WA occupancy rates sat above 50% from July onwards, buoyed by lower stock levels, which finished the year -11% down on where they were the previous December.

RevPAR tracked around $100 for the final four months of 2020, before bouncing sharply in December, reaching $115 after starting the year at $120.
Steady as she goes. That's the story as ever in South Australia, a relatively insular state further insulated by COVID travel restrictions.

Supply was down just -4% year on year, the lowest of all states, while demand slumped sharply in April, May and June.

Occupancy improved through late winter, assisted by a slump in supply, before cracking the 50% barrier in October.

At this point, RevPAR kicked, exceeding $100 for the first time since February, reaching $127 in December, compared with $137 in January.

Regional destinations performed well on weekends, but midweek traffic was slow outside holiday periods due to international and interstate travel restrictions.

Tourism Research Australia calculates in the year to the end of September South Australia’s visitor numbers were down -24% while spending fell further by -31%.
NSW – no international, no worries as regional hotspots boom

What a year for NSW, starting with a series of huge bushfires that closed large swathes of the state, especially in the south.

Then the COVID lockdown took a toll through autumn before travel restrictions were lifted. And with the people of NSW unable to travel overseas or interstate for much of the year, they decided to see their own state in record numbers.

Regional NSW was a huge winner from COVID, especially destinations close to Sydney, Newcastle and Wollongong such as the Hunter Valley, Southern Highlands, Blue Mountains and South Coast. The biggest beneficiary was probably Byron Bay in the state's far north, which became the place to be, packed with the insta-famous.
Sydney feels the pinch

A major loser was Sydney’s tourism industry, especially those businesses focused on the CBD and inner-city, which is still relatively empty at the time of writing (early Feb, 2020) with the apartment rental markets (STR and LTR) under severe pressure with rising vacancy rates and falling rents.

That said, areas such as Sydney’s far northern beaches, which has some of the most expensive holiday homes in Australia, had an exceptional winter and near-record year despite a second three-week lockdown over Christmas and New Year.

STR rates throughout the state finished on a high. The NSW nightly average daily rate for the last three months were $328 (October), $340 (November) and $347 (December), while RevPAR had also dramatically improved to far exceed where it was in January ($203 v $162).

Increased demand aside, one reason for this is likely the trend away from apartments to more expensive houses due to concerns over privacy and contact with other people. The number of STR listings in NSW fell -7% year on year.
Victoria – coming from a long way back...

No state did it tougher than Victoria through 2020.

Residents of its capital Melbourne endured two lockdowns, the second one with particularly onerous restrictions lasting 112 days from July 9 through to late October.

As a result, its tourism industry was hammered, especially in Melbourne where entire STR businesses were destroyed.

The state’s listing numbers in December 2020 were -10% down on where they were a year earlier; 49,211 compared 54,974.

Occupancies were low from March and did not breach 50% until December.

But once Melburnians were allowed to travel again the rebound was swift.

This can be clearly seen in the improved RevPAR at the end of the year.

RevPAR for operators who stuck it out returned to $150 in December, just $2 less than it was back in January.
Tasmania – leads STR occupancy but sheds listings

Tasmania started the year with the best STR occupancy of all Australian states and finished the same way thanks in part to a sharp drop in the number of listings, which were down -14% year on year when the smoke had cleared by December 2020, the second largest fall of any state.

No doubt this at least partly due to record returns local landlords are getting in the long-term rental market, where vacancy rates in Tasmania (especially Hobart) are exceptionally low.

Meanwhile, Tasmania, an island, sealed its borders to visitors for several months in the middle of 2020.

Occupancy hit rock bottom in April and May before slowly climbing to above 40% through July, August and September while the last three months of 2020 ranged between a respectable 57% to 63%.

RevPAR peaked at $151 in January and finished the year at $126 for December with a very deep trough through the year.
Northern Territory listings fall -15%

Visitors were scarce on the ground in the Northern Territory, which has a total population of around 246,000, more than half of whom live in Darwin, through 2020.

Residents of the NT actively discouraged interstate travel throughout the peak COVID months, when its tourism industry crashed, although mining was still strong.

This perhaps accounts for +50% occupancy from August, due also in part to the significantly reduced number of STR listings, which fell -15% through 2020, the biggest drop of all markets.

RevPAR hit a 2020 high of more than $100 through August, September and October, before edging downwards at the start of the wet season in November.
ACT supply stable as a bureaucrat’s working week

The Australian Capital Territory - essentially the city of Canberra - has a robust economy, and a lot of corporate/government traffic.

No surprise then its STR market weathered the COVID storm better than most. Occupancy bounced between 56% to 62% from July through to December after hitting a 71% high in February.

RevPAR remained low though.

It failed to breach $100 through the year, perhaps a reflection of either oversupply (there’s been a lot of hotel openings in recent years), a relatively low quality STR pool or general lack of interest among the people who visit Canberra. STR listing numbers fell -10% year on year.
Urban blight – cities empty as resident escape to the country

As we have seen, a consistent trend across all states was the outperformance of regional markets compared with cities.

The graph above shows that occupancy in Australia’s urban markets fell -30% in 2020 when compared with 2019.

Occupancy falls were significantly smaller for the beach (-18%) and urban (-19%) markets.

For 2020 occupancy rates were:

- Rural markets = 47%
- Beach markets = 48%
- Urban markets = 45%

In 2019 they were:

- Rural markets = 58%
- Beach markets = 59%
- Urban markets = 64%

This trend looks like it will continue through 2021 until office workers and tourists return to the cities in meaningful numbers, a process that is expected to gradually accelerate from a low base.
One Trick Ponies – just 25% of Australia’s short-term rentals are listed on more than one Online Travel Agent

The Venn diagram above from Transparent dramatically illustrates how one dimensional the distribution strategies are of most short-term rental property owners/managers in Australia.

Just 25% of Australia’s whole-home STR stock is listed on more than one Online Travel Agent.

The diagram also graphically shows the market dominance of Airbnb – 50% of its properties are exclusive to the platform compared with 17% for Expedia (Stayz) and 8% on Booking.com.

Airbnb has 73% of all listings (23% shared with the other platforms) compared with 39% for Expedia and 21% on Booking.com.
There has been fierce debate for years about Airbnb’s repeated claims that most of its properties are owned by ‘mum and dad’ investors.

Critics, generally those lobbying for tighter shorter term rental regulation, suggesting big business controls most houses, apartments and rooms listed on Airbnb.

The truth is somewhere in-between.
According to Transparent Intelligence, 33% of STR listings in Australia are managed by businesses or individuals (less likely) who have 500+ properties in their portfolio.

Meanwhile, 29% of listings are controlled by people or businesses who have a single property on the platform; 22% are managed by people or businesses with 2-10 properties.

The next step up, 11-100 properties, has 13% share, while, oddly, just 4% of stock is managed by people or businesses with portfolios of between 101 and 500 properties.

**Real Estate Agents still have most inventory**

The boom in short-term rental platforms has led to a surge in a new breed of internet savvy property managers with cute or snappy brands tailored for a new demographic.

These new operators have made their most significant inroads into urban markets.

But outside the city core, all available evidence suggests that Real Estate agents still control most holiday listings in Australia’s primary holiday destinations, both large and small.

Short Term Thinking research shows that in major holiday destinations close to Melbourne, Sydney and Brisbane, some agent-controlled holiday letting businesses have in excess of 600 properties.

Portfolios are generally much smaller in urban markets and in some cases have shrunk dramatically due to the impact of COVID.

**Conclusion**

Australia’s STR industry has survived COVID for the most part in reasonable shape and regional destinations close to cities in particular are well set for what remains an uncertain future. But city apartments have more hard times ahead, as do distant domestic destinations that are traditionally reliant on international tourism. 2021 remains very much a work in progress.
Data Partner

Transparent

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